

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
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THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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October 6, 2005

Mr. Parke Horton, Secretary Treasurer  
Lutheran Homes of South Carolina, Inc.  
300 Ministry Drive  
Irmo, South Carolina 29063


Re: AC# 3-LMN-J2 – Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center

Dear Mr. Horton:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**LUTHERAN HOMES OF S. C.  
D/B/A LOWMAN HOME NURSING CENTER**

**WHITE ROCK, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2003  
AC# 3-LMN-J2**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2003 THROUGH SEPTEMBER 30, 2004	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2002	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 15, 2005

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

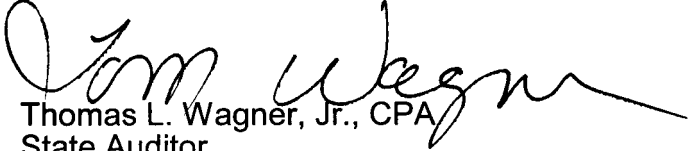
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report .
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Lutheran Homes of S.C. d/b/a Lowman Home Nursing Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
July 15, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**LOWMAN HOME NURSING CENTER**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2003  
AC# 3-LMN-J2

10/01/03-  
09/30/04

Interim Reimbursement Rate (1)	\$127.64
Adjusted Reimbursement Rate	<u>124.91</u>
Decrease in Reimbursement Rate	\$ <u><u>2.73</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

**LOWMAN HOME NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2003 Through September 30, 2004  
AC# 3-LMN-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 73.14	\$ 66.44	
Dietary		12.47	11.55	
Laundry/Housekeeping/Maintenance		<u>12.01</u>	<u>9.83</u>	
Subtotal	\$ <u>-</u>	97.62	87.82	\$ 87.82
Administration & Medical Records	\$ <u>-</u>	<u>15.79</u>	<u>13.46</u>	<u>13.46</u>
Subtotal		113.41	<u>\$101.28</u>	101.28
<u>Costs Not Subject to Standards:</u>				
Utilities		3.51		3.51
Special Services		.36		.36
Medical Supplies & Oxygen		3.83		3.83
Taxes and Insurance		2.27		2.27
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$123.38</u>		111.25
Inflation Factor (4.70%)				5.23
Cost of Capital				8.43
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>-</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$124.91</u>

**LOWMAN HOME NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-LMN-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$4,482,385	\$ 51,670 (1) 7,507 (3)	\$ 22,671 (4) 1,312 (4)	\$4,517,579
Dietary	745,023	28,186 (2)	2,738 (4) 169 (8)	770,302
Laundry	159,476	5,938 (8)	807 (4)	164,607
Housekeeping	357,214	-	1,894 (4) 1,398 (8)	353,922
Maintenance	224,588	-	591 (4) 732 (8)	223,265
Administration & Medical Records	974,393	2,640 (3)	1,634 (4) 143 (4) 305 (8)	974,951
Utilities	217,653	-	740 (8)	216,913
Special Services	22,089	-	-	22,089
Medical Supplies & Oxygen	356,639	-	51,670 (1) 57,972 (2) 10,147 (3)	236,850
Taxes and Insurance	140,677	-	472 (8)	140,205
Legal Fees	-	-	-	-



**LOWMAN HOME NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-LMN-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	562,430	10,259 (6) 889 (7)	41,458 (5) 1,246 (8) <u>10,407 (9)</u>	520,467
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	8,242,567	107,089	208,506	8,141,150
Ancillary	335,834	29,786 (2)	-	365,620
Nonallowable	982,842	31,790 (4) 41,458 (5) <u>10,407 (9)</u>	10,259 (6) 889 (7) <u>876 (8)</u>	1,054,473
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$9,561,243</u>	<u>\$220,530</u>	<u>\$220,530</u>	<u>\$9,561,243</u>
Total Patient Days	<u>61,764</u>	<u>-</u>	<u>-</u>	<u>61,764</u>
Total Beds	<u>176</u>			

**LOWMAN HOME NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-LMN-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Restorative Medical Supplies	\$51,670	\$51,670
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D		
2	Dietary Ancillary Medical Supplies	28,186 29,786	57,972
	To reclassify billable ancillary expense to the proper cost center State Plan, Attachment 4.19D		
3	Nursing Medical Records Medical Supplies	7,507 2,640	10,147
	To reclassify expenses to the proper cost center State Plan, Attachment 4.19D		
4	Nonallowable Nursing Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Records	31,790	22,671 1,312 2,738 807 1,894 591 1,634 143
	To adjust fringe benefits and related allocation State Plan, Attachment 4.19D		
5	Nonallowable Cost of Capital	41,458	41,458
	To adjust home office allocation State Plan, Attachment 4.19D		

**LOWMAN HOME NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-LMN-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Cost of Capital	10,259	
	Other Equity	27,175	
	Nonallowable		10,259
	Accumulated Depreciation		23,464
	Fixed Assets		3,711
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Cost of Capital	889	
	Nonallowable		889
	To adjust depreciation and amortization to comply with capital cost policy State Plan, Attachment 4.19D		
8	Laundry	5,938	
	Dietary		169
	Housekeeping		1,398
	Maintenance		732
	Administration		305
	Utilities		740
	Taxes and Insurance		472
	Cost of Capital		1,246
	Nonallowable		876
	To adjust indirect costs applicable to non-reimbursable cost centers State Plan, Attachment 4.19D		

**LOWMAN HOME NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-LMN-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable Cost of Capital	10,407	10,407
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$247,705</u>	<u>\$247,705</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**LOWMAN HOME NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-LMN-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>176</u>
Deemed Asset Value	7,009,728
Improvements Since 1981	405,637
Accumulated Depreciation at 9/30/02	<u>(1,776,046)</u>
Deemed Depreciated Value	5,639,319
Market Rate of Return	<u>.0561</u>
Total Annual Return	316,366
Return Applicable to Non-Reimbursable Cost Centers	(11,089)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>11,655</u>
Allowable Annual Return	316,932
Depreciation Expense	211,879
Amortization Expense	12,533
Capital Related Income Offsets	(3,600)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(17,277)</u>
Allowable Cost of Capital Expense	520,467
Total Patient Days (Actual)	<u>61,764</u>
Cost of Capital Per Diem	\$ <u><u>8.43</u></u>

**LOWMAN HOME NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-LMN-J2

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>8.43</u>
Reimbursable Cost of Capital Per Diem	\$8.43
Cost of Capital Per Diem	<u>8.43</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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